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BEFORE  
THE PUBLIC SERVICE COMMISSION OF  
SOUTH CAROLINA  
DOCKET NO. 89-527-W - ORDER NO. 90-984  
OCTOBER 15, 1990

IN RE: Application of Lake Moultrie Water )  
Co., Inc., for Approval to Operate ) ORDER  
a Water System and Approval of a ) APPROVING  
Schedule of Rates and Charges for ) SERVICE AREA  
Water Service provided to Customers ) AND RATES  
in Lake Moultrie Shores, Berkeley ) AND CHARGES  
County, South Carolina. )

By Application filed January 16, 1990, Lake Moultrie Water Co., Inc. (the Applicant) seeks approval to operate a water system and to implement a schedule of rates and charges for water service provided to its customers in Lake Moultrie Shores, Berkeley County, South Carolina. The application was filed pursuant to S.C. Code Ann., §58-5-240 (Cum. Supp. 1989) and R.103-821 of the Commission's Rules of Practice and Procedure.

Subsequent to the initiation of this proceeding, the Executive Director of the Commission instructed the Applicant to cause to be published a prepared Notice of Filing in newspapers of general circulation in the affected area, and to furnish the same information to each customer. The Notice of Filing indicated the nature of the Application and advised all interested parties desiring to participate in the proceeding of the manner and time in which to file the appropriate pleadings.

A Petition to Intervene was timely filed by the Consumer

Advocate for the State of South Carolina (the Consumer Advocate).

After notice duly provided, a public hearing was held pursuant to S.C. Code Ann., §58-3-95 (Cum. Supp. 1989) in the offices of the Commission on August 15, 1990, at 2:30 p.m. The members of the hearing panel were Commissioners Bowers, Fuller, and Butler. The Applicant was not represented by counsel, but William H. Dennis, its President, presented testimony on its behalf. The Consumer Advocate was represented by Elliott F. Elam, Jr., Esquire, and the Commission Staff was represented by Sarena D. Burch, Staff Counsel. The Commission Staff presented the testimony of Charles A. Creech, Chief of the Water and Wastewater Department, and D. Joe Maready, Staff Accountant.

The Commission Staff made on-site investigations of the Company's facilities, audited the Company's books and records, and gathered other detailed information concerning the Company's operations.

## II.

### JURISDICTION

S.C. Code Ann., §58-5-290 (1976) vests this Commission with the authority to change the rates of a "public utility" whenever the Commission finds, after hearing, that such rates are "unjust, unreasonable, noncompensatory, inadequate, discriminatory or in any wise in violation of any provision of law." A public utility is defined by S.C. Code Ann., §58-5-10(3) (1976) as including "every corporation and person furnishing or supplying in any manner, gas, heat (other than by means of electricity), water, sewerage

collection, sewerage disposal and street railway service, or any of them, to the public, or any portion thereof, for compensation." §58-5-290 also provides that when the Commission determines that a utility's rates are unlawful, the Commission shall determine and fix by order the "just and reasonable" rates to be thereafter charged by the public utility. The Commission finds and concludes in this proceeding that the Company is a public utility under the provisions of S.C. Code Ann., §58-5-10(3) (1976).

### III.

#### RATEMAKING METHODOLOGY

Under the guidelines established in the decisions of Bluefield Water Works and Improvement Co. v. Public Service Commission of West Virginia, 262 U.S. 679 (1923), and Federal Power Commission v. Hope Natural Gas Co., 320 U.S. 591 (1944), this Commission does not insure through regulation that a utility will produce net revenues. As the United States Supreme Court noted in the Hope Natural Gas decision, supra, the utility "has no constitutional rights to profits such as are realized or anticipated in highly profitable enterprises or speculative ventures." However, employing fair and enlightened judgment and giving consideration to all relevant facts, the Commission should establish rates which will produce revenues "sufficient to assure confidence in the financial soundness of the utility and...that are adequate under efficient and economical management, to maintain and support its credit and enable it to raise the money necessary for the proper discharge of its public duties." Bluefield, supra, at 692-693.

Neither S.C. Code Ann., §58-5-290 (1976), nor any other statute prescribes a particular method to be utilized by the Commission to determine the lawfulness of the rates of a public utility. For ratemaking purposes, this Commission examines the relationships between expenses, revenues and investment in an historic test period because such examination provides a constant and reliable factor upon which calculation can be made to formulate the basis for determining just and reasonable rates. This method was recognized and approved by the Supreme Court for ratemaking purposes involving telephone companies in Southern Bell Telephone and Telegraph Co. v. The Public Service Commission of S.C., 270 S.C. 590, 244 S.E. 2d 278 (1978).

The historic test period generally utilized is the most recent twelve-month period for which reasonable complete financial data is available, and is referred to as the "test year" period. In this proceeding, the Commission concludes that the twelve-month period ending December 31, 1989, should be used as the test year. This Commission allows certain accounting and pro forma adjustments to be made to the actual test year figures. Adjustments are made for (1) items occurring in the test year but which are not subject to recur in the future; (2) items of an extraordinary nature whose effects must be annualized or normalized to reflect properly their impact; and (3) other items which should be included or excluded for ratemaking purposes. Adjustments are also made for "known and measurable changes" in expenses, revenues and investments occurring after the test year. Southern Bell Telephone and Telegraph Co. v.

Public Service Commission, 270 S.C. 590, 244 S.E. 2d 278 (1978).

For water utilities, where the utility's rate base has been substantially reduced by customer donations, tap fees, contributions in aid of construction or book value in excess of investment the utility may request, or the Commission may decide, to use the "operating ratio" and/or "operating margin" as guides in determining just and reasonable rates, instead of examining the utility's return on its rate base. The operating ratio is the percentage obtained by dividing total operating expenses by operating revenues. The obverse side of this calculation, the operating margin, is determined by dividing net operating income for return by the total operating revenue of the utility.

In this proceeding, the Commission will use the operating margin as a guide in determining the lawfulness of the Company's proposed rates and if necessary, the fixing of just and reasonable rates. This method was recognized as an acceptable guide for ratemaking purposes in Patton v. South Carolina Public Service Commission, 280 S.C. 288, 312 S.E. 2d 257 (1984).

#### IV.

#### ACCOUNTING AND PRO FORMA ADJUSTMENTS

The Commission Staff proposed adjustments to revenues and expenses in its presentation. The Staff made several accounting and pro forma adjustments of a standard ratemaking nature and updated the test year to calendar year ending 1989. Staff must maintain procedures advanced by prior decisions of this Commission along with adjustments that maintain the required standards of

known and measurable changes.

Staff's adjustments are fully detailed in the revised Staff Report admitted into evidence as Hearing Exhibit No. 1. (It was necessary to revise the numbers in the Accounting Department's section of the Staff Report due to an error in calculating one of the numbers). All of Staff's adjustments are consistent with generally accepted accounting principles as well as accepted ratemaking practices. The Commission finds and concludes that the Staff's adjustments to revenue and expenses in this proceeding are proper and necessary, and are adopted for the reasons given by the Staff. All other adjustments to taxes are accordingly approved and all other adjustments proposed by any other party are hereby denied.

The Commission has certain discretionary authority when it comes to supervising and regulating the rates and service of public utilities in this State pursuant to S.C. Code Ann., §58-5-210 (1976). The determination of an appropriate operating margin is such an area where the Commission may exercise its discretion. See, Patton, supra. It is the Commission's duty, in determining the just and reasonable operating margin for the Company, to examine the relationship between the Company's expenses, revenues and investment in an historic test period, as well as the quality of service provided to its customers.

The Company has requested approval of a Basic Facilities Charge of \$13.50 per month which includes cost for 6,000 gallons of water plus a commodity charge of \$2.50 per 1,000 gallons for usage

in excess of 18,000 gallons per quarter. The Company was originally formed in 1976, however, this is its first request for approval of its existing rates and charges.

The Staff has determined that the proposed basic facilities charge, when considered with the various accounting and pro forma adjustments for known and measurable changes, generates an operating margin of 18.23%. Hearing Exhibit No. 1. The Commission finds that this margin is within a range of reasonableness and that the proposed basic facilities charge should be approved. Moreover, the cost for 18,000 gallons of water per quarter also falls within the range of rates authorized by this Commission for other water utilities.

A problem arises, however, concerning the proposed commodity charge of \$2.50 per 1,000 gallons for all usage above 18,000 gallons per quarter. The Company submitted no evidence in support of this charge; therefore, the Commission must reject it. However, witness Dennis indicated that the Company was going to begin to read the meters to determine actual consumption. Therefore, after the Company has read the meters for one year to determine actual consumption over 6,000 gallons per month, the Company can apply to the Commission for a specific commodity charge.

The Commission has developed a schedule of rates and charges, attached hereto as Appendix A and incorporated by reference herein, to apply to the water service provided by the Company.

The Commission finds and concludes that the rates and charges approved herein achieve a balance between the interest of the

Company and those of its affected customers. This results in a reasonable attainment of our ratemaking objectives in light of applicable statutory safeguards.

IT IS THEREFORE ORDERED:

1. That the proposed schedule of rates and charges by the Company are hereby found to be reasonable and are approved as modified herein.

2. That the schedules of rates and charges attached hereto as Appendix A, be, and hereby are, approved for service rendered on or after the date of this Order, and that these schedules be, and are hereby, deemed to be filed with the Commission pursuant to S.C. Code Ann., §58-5-240 (1976).

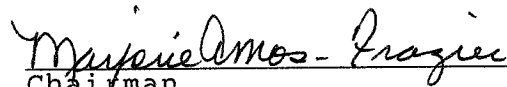
3. That should such schedule not be placed in effect within three (3) months of the effective date of this Order, such schedule as contained herein shall not be charged without written permission from the Commission.

4. That the Company shall maintain its books and records for its water operations in accordance with the NARUC Uniform System of Accounts for Class C Water Utilities, as adopted by this Commission.

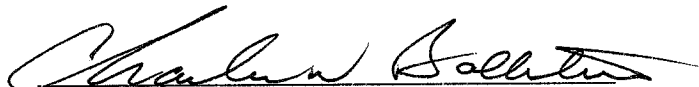


5. That this Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:

  
Chairman

ATTEST:

  
Executive Director

(SEAL)

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LAKE MOULTRIE WATER CO., INC.  
OCTOBER 15, 1990  
APPENDIX A

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APPENDIX A

Type of residence: Single Family  
Monthly Service Charge: Basic Facilities Charge: \$13.50

SCHEDULE OF TAP FEES

<u>Class of Customer</u>	<u>Tap Fee</u>
Residential	\$500.00
Commercial	(to be negotiated)

SCHEDULE OF D/R FEE AND LATE PAYMENT CHARGE

Discontinuance and Reconnection Charge  
(SCPSC Rule 103-732.3) \$ 35.00  
  
Late Payment Charge (SCPSC Rule 103-732.2):  
1 1/2% of unpaid balance remaining 25 days after billing date.

SCHEDULE OF OTHER CHARGES

New customer set-up fee: \$ 25.00